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TAGS: [PREL](#) [ECON](#) [ENRG](#) [PGOV](#) [NATO](#) [UP](#)
SUBJECT: UKRAINE: A/S FRIED AND PM YANUKOVYCH DISCUSS NATO,
ENERGY

Classified By: Ambassador, reason 1.4 (b,d)

11. (C) Summary: Assistant Secretary Fried highlighted USG willingness to work with PM Yanukovych's government and our belief that Ukraine needed to move at a speed it sets towards NATO membership. Fried also stressed the importance of Ukraine developing as an open, democratic, prosperous society. He urged that Ukraine not feel the need to choose between Russia and the West in its foreign policy. Yanukovych expressed appreciation for Fried's approach and raised possible joint defense manufacturing projects as a vehicle to build support in Ukraine for NATO. The PM also described Ukraine's ideas to reinvigorate the Odesa-Brody pipeline, which he discussed with Polish PM Kaczynski during his September 6 visit to Warsaw, and also the state of play in gas talks with Russia and Turkmenistan. He touted plans for Ukraine to invest in gas fields in Kazakhstan and in the Astrakhan region of Russia as a way to meet gas needs. Yanukovych argued that his government's reinvigoration of bilateral commissions with Russia was removing festering problems in the relationship. The PM professed to support completing WTO accession soon, with the proviso that Ukrainian manufacturers' interests needed to be considered. He said he would be interested in a visit to Washington after our elections. In a separate conversation, ultimate insider journalist Yuliya Mostova gave hints on dealing with Yanukovych and on his psychological make-up. End Summary.

12. (C) A/S Fried and the Ambassador's September 7 meeting with Prime Minister Viktor Yanukovych went for almost two hours. (Note: Although Yanukovych started with a lengthy monologue (a summary in para 8) on some key economic and foreign policy issues where he seemed nervous and a bit defensive, he seemed to warm up and relax considerably once A/S Fried made his points on NATO.)

U.S. WANTS TO WORK WITH YOU

13. (C) A/S Fried congratulated Yanukovych, passed Secretary Rice's greetings, and noted the U.S. wanted to work together with his government as a friend and partner. On Russia, he noted we expect that Ukraine will have close ties with Russia as long as Ukrainian sovereignty was respected; there was no reason Ukraine should feel it needed to choose between good relations with Russia or good relations with the U.S. and Europe.

NATO: GO ONLY AS FAST AS YOU WANT TO

14. (C) A/S Fried stressed that the U.S. did not want to force Ukraine into NATO. We understood there was not yet a consensus in Ukrainian society on NATO membership, and the U.S. wanted Ukraine to go as far as they wanted to go with NATO membership and at the pace with which they were comfortable. He hoped Yanukovych would not feel under

pressure to announce Ukraine's ambitions for fast track NATO membership during his September 14 visit to Brussels and told the PM that if he presented Ukraine's perspective on how it wanted to cooperate with NATO, then that would be well received. It would be better, Fried said, to develop relations with NATO and NATO countries, and let the consensus in Ukraine develop naturally for membership. His view was it would be better if Ukraine entered more slowly but based on a solid national consensus, rather than quickly but divisively.

15. (C) Yanukovych expressed his thanks for these comments and attributed the drop in public approval for NATO membership in Ukraine to a sense that membership was being accelerated because the GOU was under pressure to join. Fried reiterated Ukraine should join when it wanted to, but should not feel pressure - NATO was not the Warsaw Pact. In the meantime, Fried said, Ukraine had an important foreign policy role to play: working with Georgia, Azerbaijan and Moldova was useful while trying to improve relations with Russia. The U.S., he stressed, did not want to place Ukraine in a difficult position.

GET THE DOMESTIC SIDE RIGHT

16. (C) Fried continued that the key was for Ukraine to develop into a sovereign, prosperous, democratic, open society. If this happened, he felt, many of the other problems like NATO or foreign policy orientation would take care of themselves. Domestic success in bringing this transformation was critical - a Ukraine that was open, eliminated corruption, and rationalized its energy use would be attractive to investors. Fried noted that Ukraine had

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lost a major investment by Dell Computer to Poland within the past year. When Yanukovych eagerly asked if we could bring Dell back to Ukraine, Fried rejoined it was too late for that, but promised that the Ambassador would bring the next investor to the PM.

WANTS TO VISIT WASHINGTON AFTER ELECTIONS

17. (C) Yanukovych said he hoped to visit Washington soon, but understood it would be easier after our elections. Fried responded he looked forward to seeing the PM in Washington, and would report back to the Secretary on his mission, as well as to the Vice President and his staff, who were good friends of Ukraine. Yanukovych invited Fried to return and meet more of the government.

DEFENSE COOPERATION, ENERGY, RUSSIA, WTO

18. (C) Yanukovych made a number of other points in his lengthy monologue, which he stated represented only the highest priority issues:

-- Yanukovych suggested that cooperation with NATO on concrete manufacturing projects would be an excellent way to build political arguments for NATO with the Ukrainian population. He mentioned both the AN-70 transport aircraft and a possible jointly-produced armored personnel carrier as possible projects. Yanukovych had raised the AN-70 with Polish PM Kaczynski, and felt the project would have strong commercial viability.

-- Yanukovych had extensive discussions with PM Kaczynski on the Odesa-Brody-Plock pipeline proposal. The Ukrainians are interesting in setting up an interim supply agreement with the refinery at Kralupy for 7 million tons/year that they hope will give the Poles confidence to go forward with the Plock extension and also motivate Kazakhstan and Azerbaijan to join the project.

-- Yanukovych noted that gas negotiations with Russia continued. He stated the Russians had agreed the GOU would sign all agreements with Gazprom alone and that Gazprom would be responsible for supplying the balance of gas to Ukraine. Prices would not go up this year, but probably would be a "slight" increase in 2007, "according to world prices."

-- The PM said the climate for gas negotiations with Turkmenistan had improved now that Ukraine was clearing up its debts.

-- Ukraine was looking at gas production projects in Kazakhstan and near Astrakhan in Russia, which could add substantial volumes (c. 30 bcm) to Ukraine. He said the Russians were interested in the Astrakhan project, which included a new pipeline. Ukraine would increase the capacity of its gas transit pipelines.

-- Ukraine and Russia had reinvigorated their structure of bilateral commissions, and Yanukovych felt this could resolve some festering problems. He predicted the Russian bans on dairy and meat products from Ukraine would be resolved by year's end. Talks were also underway to resolve the bilateral meat dispute with Poland.

-- On WTO, he reiterated the hope to have the accession completed by the end of the year, but cautioned they might have to take into account the interests of Ukrainian manufacturers. He said the GOU would like to discuss these problems separately with the USG and added we were the only country that could resolve this - the problem centered on some commitments for zero rates.

-- Yanukovych several times highlighted that his government is seeking advice on economic reforms from well-known consultants McKinsey and Company.

-- On politics, he claimed that he had good working relations with President Yushchenko. However, he noted the Cabinet of Ministers no longer felt obligated to respond to instructions from the Presidential Secretariat.

-- Yanukovych also raised hardy perennial issues like the lack of contracts for Ukrainian companies in Iraqi reconstruction and the unresolved issue of solid rocket fuel elimination. On the former, Fried suggested that the GOU look at participating in the Compact for Iraq.

MOSTOVA'S ADVICE ON HOW TO ENGAGE YANUKOVYCH

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19. (C) Note: Yuliya Mostova, Ukraine's leading journalist and political commentator for the last decade, offered her suggestions before A/S Fried's meeting on how best to engage Yanukovych: don't corner him or shun him like a second class leader, as happened with Kuchma after 2000. Yanukovych craved respect and options for positive engagement; treat him seriously, but make clear he had to deliver on serious commitments. Yanukovych generally ascribed to the gangster rule of keeping his word; while his word was not automatically a guarantee, it would not be an empty promise, and he usually delivered.

110. (C) Talk about values would get nowhere for someone without a strategy or principles; Yanukovych would respond best to tangibles, not for himself, but what Ukraine would get out of a certain situation, decision, or action, which he could then use when engaging his more skeptical party members and support base. Of all the Regions' figures moving back into power, business/profit motives were secondary rather than primary for Yanukovych; he was more focused on politics and policy.

¶11. (C) Mostova added that Yanukovych benefited from a shrewd animal-like intuition which led him to try to win over skeptical interlocutors by sharing frank stories from his deprived childhood and criminal past, creating a type of Stockholm syndrome psychological dynamic: how he, growing up poor without a father, had to steal food and other items to survive; how, when he was in prison, he and fellow inmates placed a troublesome convict in a wardrobe and tossed him out a second story window; how he, after surviving an assassination attempt which killed his driver and bodyguard and left him shot in the shoulder, tracked down the father of a girl who had been raped earlier by the pair who had ordered the shooting, gave the father a machine gun, after which the latter killed the two brothers and turned himself into the police. Mostova said Yanukovych reminded her of former PM Lazarenko: both could sing a song one moment and knife someone the next, though Yanukovych was more straightforward and less devious than Lazarenko (note: convicted of money laundering in the U.S. and just sentenced to nine years in prison).

¶12. (U) A/S Fried has cleared this cable.

¶13. (U) Visit Embassy Kiev's classified website at:
www.state.sgov.gov/p/eur/kiev.
Taylor